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INCOME AND DEBT PAYING CAPACITY IN WEST CENTRAL ALBERTA

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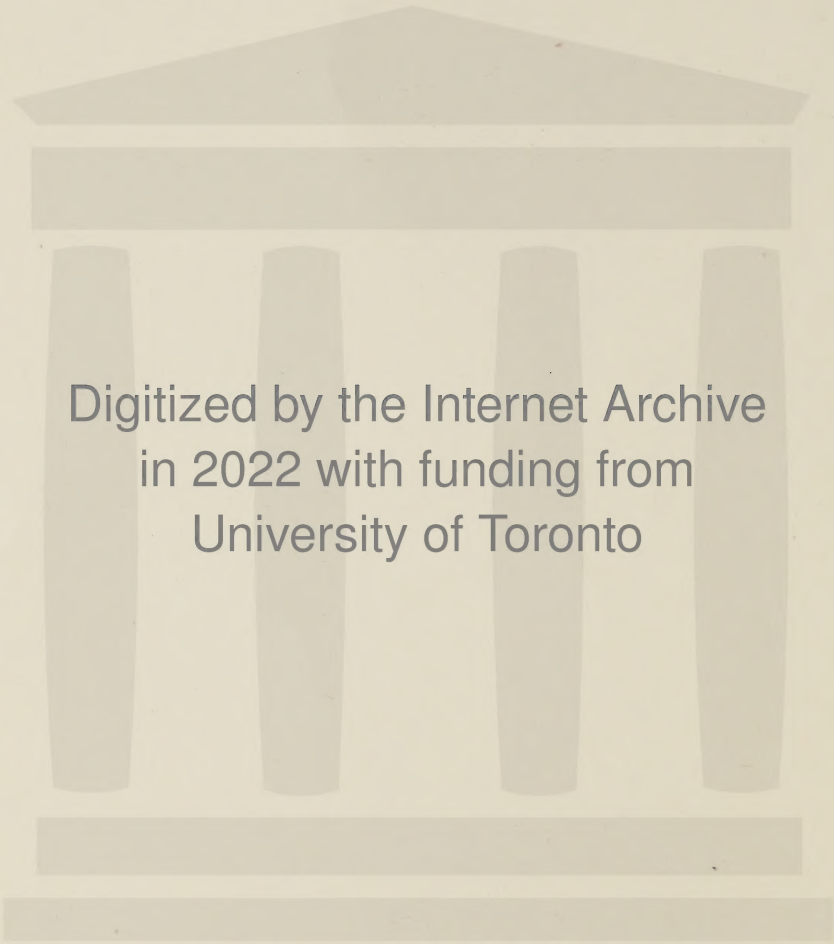
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SUMMARY

During the 'forties' there was a strong demand for land in west central Alberta. The demand came from farmers in less certain crop districts of the open prairies, from war veterans and resident farmers desiring to enlarge their holdings. Land prices doubled within less than a decade. Many of the purchasers have assumed substantial financial obligations and the question was raised concerning their chances of meeting these obligations and the conditions in which they must carry on to do so.

An attempt to provide an answer to this question was made through a study of the organization and of the income and debt-paying capacity of 124 farms in the Red Deer-Wetaskiwin area in 1946-47 and of 21 additional farms for each subsequent year including 1950.

Farms varied in size from a quarter section to five and more quarters; two-thirds were half section or less, the half section being the most common. Barley occupied the largest acreage per farm, followed by summer-fallow, oats and wheat. The long-time average in this area for wheat varied from 18 bushels on the eastern side to 24 bushels on the western side.

A livestock type of farm predominates. In the sample 85 per cent of the farms belonged to this type, with about one-quarter producing fluid milk for sale in larger towns or cities, or for the condensery at Red Deer. Both cattle and hogs were important. Mixed grain-livestock farms had the largest number of acres.

Gross receipts, allowing for net change in inventories, averaged more than $5,000 per farm in 1946-47. Considerably more than one half of the receipts was derived from livestock and livestock products. Wheat was the chief cash crop.

Current operating expenses averaged about $2,000 per farm, farm family cash living costs $1,400, and capital expenditures including allowance for depreciation nearly $1,250. Investment in new machinery and farm improvements on many farms was unusually high in 1946-47.

Including the net investment in capital goods, the net farm income or return to the operator for his labour and management and to farm capital averaged about $1,950 per farm. The family income from the farm business, family allowances and non-farm sources, less the family's cash living expenses, averaged $1,064 per farm and represented a surplus which was available for paying interest or making principal payments on capital debt or for savings.

An annual payment of $1,064 will pay off a debt of $13,260 in 20 years at five per cent interest. The values placed on real estate of the 124 farms averaged about $12,000 per farm, or $34 per acre. Other farm capital, chiefly capital invested in machinery and livestock, averaged more than $6,500 per farm giving total farm capital of slightly more than $18,500. But farms which changed ownership in 1947 did so at prices above the $34 appraised value or at $42 per acre. With a real estate value of $42 per acre, average capital outlay per farm amounted to about $21,500. The annual payment, then, of $1,064 would pay off a little less than two-thirds of such capital outlay in 20 years at five per cent.

Analysis of the 124 farm businesses indicate that a minimum size farm of one half section with at least 200 acres under cultivation and emphasizing a livestock type of enterprise, would be required to permit earning $1,000 surplus above operating, capital maintenance and farm family cash living costs.

A similar study of 21 other farm businesses in the same general area for 1947, 1948, 1949 and 1950 indicates that a $1,000 surplus was or could easily have been attained by the 124 farms during all of these years except 1949. This study suggests that in any amortization plan for paying off indebtedness on capital account, insurance against one 'off' year in five should be allowed for. Thus, four 'surpluses' of $1,000 in five years might be budgeted for.

A debt roughly equivalent to the value of the one half section unit of real estate at about $40 an acre could be liquidated in 25 years. This means that at the time of purchasing the farm one would need to own outright the farm machinery, livestock and other moveable farm capital to operate the farm, or the equivalent equity in the farm business.

Less favourable farm price-cost relationships than in the 1946-50 period may be expected in the future but opportunity for expansion, increased productivity and efficiency of operation should offset the less favourable farm price-cost relationships.

FARM ORGANIZATION, INCOME AND DEBT PAYING POTENTIALITY IN WEST CENTRAL ALBERTA

C.C. Spence 1/

INTRODUCTION

During the past decade there has been a greater demand for farms in west central Alberta than in any other section of the province. This is a region where crop risks tend to be smaller and where farmers are thus assured of a more regular income and agriculture and its associated industries enjoy a greater degree of stability. The demand for farm land comes from those farmers in the area who are expanding their holdings in order to take full advantage of the mechanization of their farms, and farmers from the open plains of southeastern Alberta and southwestern Saskatchewan who had experienced years of low farm productivity and farm income, especially during the thirties. After a few years of better-than-average crops in the forties some of these farmers sold their farms to other farmers and moved to the better cropland farms of the parkland areas. Settlement agencies such as Veterans' Land Act Administration also favoured the west central Alberta region in the selection of their farms.2/ The continued rise in the prices of agricultural products intensified the demand for land but also led to a substantial increase in land prices.

In 1947 in the Red Deer-Wetaskiwin region, land averaged $42 per acre for 60 recorded bona fide land sale transactions involving more than 18,000 acres of land in improved and semi-improved farms. Sales values of these same farms just before the Second World War averaged about one half this price, or $21 per acre. Seventy per cent of the sale prices in 1947 were between $30 and $60 per acre, 15 per cent were below $30 and 15 per cent were above $60.3/

Scope and Purpose of this Study

In this study a general appraisal is made of the farms of the Red Deer-Wetaskiwin area, their organization and operation, the expected net revenue, the prices paid for land and the terms of purchase, and the opportunities for purchasers to meet their commitments.

1/ Senior Economist. Canada Department of Agriculture. University of Alberta, Edmonton.

2/ Excluding provincial lands, about one-fifth of the full time farming establishments made in Alberta under V.L.A. administration were within an area roughly bounded by Wetaskiwin at the north, Red Deer to the south - Stettler at the east to the fringe of settlement to the west. Correspondence with V.L.A. administration, Edmonton.

3/ T.H. Askin, "Recent Changes in Alberta Farm Land Prices." The Economic Annalist, Canada Department of Agriculture, November 1948.

This appraisal is based on the organization and operation of 124 farms located within the general region from Red Deer at the south to Wetaskiwin at the north, for the crop year 1946-47,1/ and supplemented by data for 21 other farms in the same general area for each subsequent year up to and including 1950.2/ It should be pointed out that all proceeds of 1946 grain sold were not received until the close of the five-year wheat pool in 1951; all except the final payment of eight cents per bushel were included in the calculation of farm income for this report.

FARM ORGANIZATION

Land Use

The 124 farms studied in 1947 3/ in the Red Deer-Wetaskiwin area were considered fairly representative of the region. They varied in size from one-quarter to five and more quarters, two-thirds were half section or less with the half section farm being the most common. The average size was 353 acres with 224 cultivated (Table 1). The order of importance of use of cultivated land in 1946-47 crop season was barley, summerfallow, oats, wheat, forage crops and rye. The unimproved land varied in cover from a fairly dense grass growth interspersed with light willow clumps, to thin grass growth within heavy stands of large poplar, adding much to very little natural forage for grazing animals.

Table 1.- Land Use on 124 Farms, Red Deer-Wetaskiwin Area, Crop Year 1946-47

Use	Acres - average per farm -
Wheat	32
Oats	48
Barley	56
Rye	2
Other (including forage)	31
Fallow	55
Total crop	224
Unimproved (pasture and woodland)	129
Total acres	353

1/ A study of the farm organization and operation of 124 farms in Red Deer-Wetaskiwin area was made in 1947 in connection with a study of Changes in Farm Family Living in Three Areas of the Prairie Provinces 1942-47. See Technical Bulletin 69, Canada Department of Agriculture, Economics Division and Department of National Health and Welfare in co-operation with the Universities of Alberta and Saskatchewan.

2/ Continuous financial and management records on farms of 21 co-operating farmers for the years 1947 to 1950 in the study of Farm Business and Financial Progress of V.L.A. Settlers in West Central Alberta, Economics Division, University of Alberta. Report in preparation.

3/ Accounting year for study of 124 farms - June 1, 1946 to May 31, 1947.

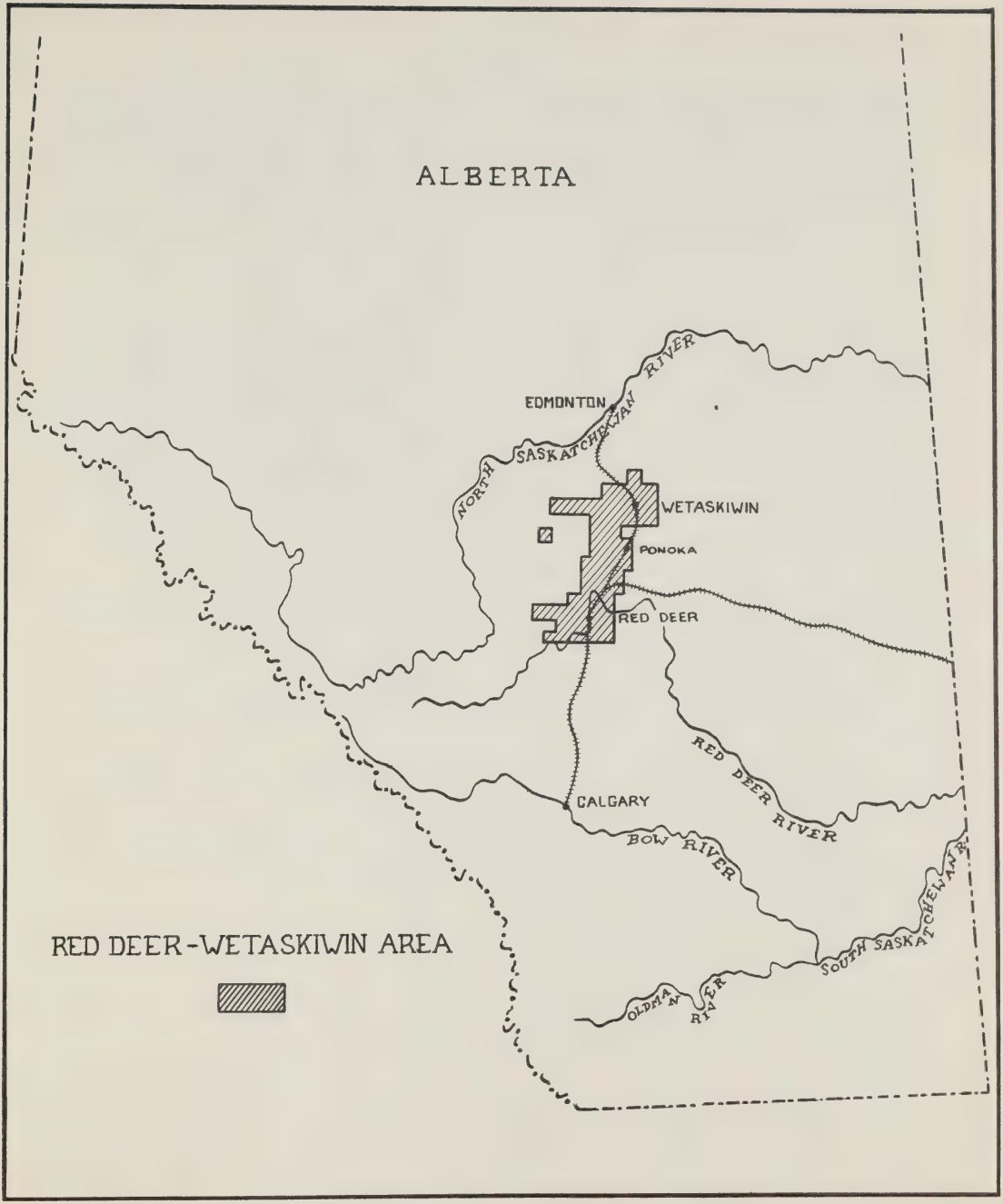

Figure 1.- Map showing location of the Red Deer - Wetaskiwin area.

Livestock

Cattle was the most common kind of livestock on these farms and hogs were second only to cattle as a revenue-producing enterprise. The average number of productive animal units amounted to 26.3 per farm.1/ The labour force averaged 1.4 man equivalents per farm, and there was an average of about one tractor per farm. There were five horses per farm, on the average, but the number of horses is decreasing with the increasing mechanization of the farms.

Farm Types

The most predominant type of farm in the Red Deer-Wetaskiwin area is the livestock type (Table 2); the production of livestock or livestock products for sale is the major enterprise on this type of farm. The 124 farms studied in 1947 include 81 general livestock farms, 24 whole milk farms selling milk to retail markets in one of the larger towns or cities in the area or the Red Deer condensery, and 19 mixed grain-livestock farms, or farms where the production of grains for direct sale is more important than that of livestock or livestock products.

Table 2.- Farm Capital, by Types of Farms, 124 Farms in the Red Deer-Wetaskiwin Area, Crop Year 1946-47

	Farm type			
	General livestock	Whole milk	Mixed grain-livestock	All farms
	- dollars -			
Real estate	11,260	11,482	15,950	12,022
Livestock	2,830	2,548	1,428	2,560
Machinery	3,126	3,377	4,113	3,326
Feed, seed and other supplies	665	579	870	680
Total	17,881	17,986	22,361	18,588
	- acres -			
Cultivated	200	228	320	224
	- units -			
Number of Productive animal units	29.4	25	14.5	26.3
Man equivalents	1.4	1.4	1.4	1.4
Number of farms	81	24	19	124

1/ One 'animal unit' is equivalent to one horse, one mature cow, three brood sows kept for one year, five hogs raised to market weight, seven sheep, or 100 hens.

Farm Capital

The estimated value of the farm capital invested in the 124 farms averaged about $18,600 per farm (Table 2). Real estate accounted for about two-thirds of the total and the remainder was made up of farm machinery and livestock. Real estate 1/ represented about $34 per acre or $53 per acre of improved land.

FARM OPERATION

Cropping and Yields

Grain.- In 1946 crop yields on these 124 farms were at about the same level as the long time average for the Red Deer-Wetaskiwin area. Yields were well above this average on some farms but much below it on some others, 20 per cent of the farms having suffered crop losses through hail and as many as 11 per cent of the farms reporting the loss of all their crops. The long time average for this area varies from 18 bushels of wheat in the eastern sector of the area to 24 bushels in the western sector; variations in yields among farms are influenced mainly by differences in soil, the lighter-textured and shallow soils giving the lower yields. Differences in yields between light and shallow soils and heavy and deep soils, however, are not as great as in the prairie regions where there is less precipitation and more evaporation. The long time barley yield has averaged about 25 per cent more and oats 75 per cent more than wheat.

Disposition of Grain.- About one half of the cash grain sales were made up of wheat. In 1946-47 wheat sales averaged 600 bushels per farm for all types, but were more than double this amount on the grain type farms. It graded largely Nos. 2 and 3 Northern, which is about normal for the area. Cash receipts from coarse grains averaged $789 per farm. In all, the receipts from grain averaged $1,577 per farm.

There was an average of 1,400 bushels of barley and oats fed on the farms, approximating in value $850, of which $125 was purchased.

Forage and Pasture.- The acreage in forage crops, even with the livestock type of farms, is relatively small and is chiefly legumes and grass. It averaged 15 acres per farm out of 224 total acres of cropland in 1946-47. This acreage consisted of alfalfa and brome, often in combination, in the eastern part of the region, — and alfalfa, red clover, alsike, brome and timothy in the western part. One cutting of hay per year is usually all that is made and the yield approximates a little over a ton per acre. The meadow is usually pastured in the fall, and too often in the spring as well, to ensure satisfactory hay yields. The other pasture is the unimproved land, and it is very often the extent of this area of relatively unimproved grass land compared with the area of improved land on

1/ Farm operators were asked to place values on their land with improvements based on the long term earning value, past and current sales of nearby property. These were used in calculations involving farm capital throughout this report except where noted.

the farm which determines the type of farming as between a livestock and a grain-livestock one. With livestock, the rough pasture land can be utilized.

Livestock Production

Cattle.- Cattle were the most important single livestock enterprise, but the number and classes of cattle varied considerably even on the livestock type of farms. The dairy farms producing whole milk for sale comprised slightly more than one-quarter of the livestock farms and had, on the average, the equivalent of 19 head of mature cattle, chiefly of the Holstein breed, including ten milking cows. The other livestock farms carried about the same number of cattle. On some of the farms these were predominantly of the dairy breeds and the Shorthorn breed, where from five to ten cows were regularly milked, and the product marketed as churning cream at a local creamery.

On the other farms the cattle were predominantly of the beef breed, with fewer cows milked, and the chief revenue was derived from the sale of beef animals. A few cattle are sold as feeders to be finished in feed lots in the area or shipped to feed lots in the southern part of the province, but a goodly number are fed and finished during the winter on the farms where grown. The three important beef breeds, Shorthorn, Aberdeen Angus, and Herefords are fairly evenly distributed in the area.

On the whole, the class of cattle raised is good and gradually improving. Most replacements to the cattle herds for both the dairy and beef types are generally raised on the same farm. Sires are obtained from a few breeders in the area and from more distant places.

Sheep.- Only four farms had sheep and the total number of sheep was only 150.

Hogs.- The Red Deer-Wetaskiwin area includes a few of the largest hog producing districts in the west, notably Ponoka. The average number recorded for all farms sampled was the equivalent of 23 mature hogs. There were about 27 hogs marketed per farm, which represents about half the number marketed in 1943-44 in the Innisfail area.1/ The Yorkshire is the most popular breed and the area has a reputation for its good quality hogs,

Receipts from Livestock.- Receipts from livestock and livestock products (including milk, cream, eggs, hides and wool) averaged about $2,500 for all farms studied. As previously noted these receipts were somewhat higher on the livestock than on the other farms. On the whole milk farms sales of livestock products averaged about $1,500 per farm. For all farms livestock revenue accounted for more than 30 per cent of the gross farm cash receipts.

1/ Spence, C.C.: Farm Business in Central Alberta 1943-44. Canada Department of Agriculture, Economics Division, in co-operation with the Department of Political Economy, University of Alberta. Technical Bulletin 73.

Farm Receipts

In 1946-47 gross cash farm receipts, excluding a substantial increase in inventory, averaged about $4,500 per farm (Table 3). This amounted to over $20 per cultivated acre, or about $13 per total acre. There was an average of 1.4 man equivalents per farm and the gross cash receipts thus averaged $3,214 per man. Large operational expenses, however, were required to obtain these gross receipts.

Table 3.- Cash and Total Farm Receipts by Types of Farms, Red Deer-Wetaskiwin Area, Crop Year 1946-47

	Farm type			
	General Livestock	Whole milk	Mixed grain-livestock	All farms
	- dollars -			
Crops a/	1,371	2,014	2,473	1,664
Livestock	2,164	1,141	1,104	1,804
Other farm produce	520	1,479	438	693
Other	269	610	341	346
Total cash	4,324	5,244	4,356	4,507
Net increase in inventory b/	676	747	649	685
Farm receipts (allowing for change in inventory)	5,000	5,991	5,005	5,192
Receipts from outside sources - family allowances, etc.	223	385	217	254
Number of farms	81	24	19	124

a/ Includes all Wheat Board payments on 1946 crop to December 31, 1950.
b/ Includes changes in values of grain, fodder, livestock, as well as new machinery added less depreciation on all machinery for the year.

The concluding observations on the operation of these 124 farms studied in 1947 could not be made until final returns of the grain sold were known. Subsequent to the study and up until December 31, 1950, two 20-cents-a-bushel payments were received for wheat sold from the 1946 crop out of the five-year 1946-50 pool of the Canadian Wheat Board. Equalization payments were received as well for coarse grains sold. These additional returns have been included in discussion of the gross and net returns, the surplus and farm performance in relation to operator's financial commitments and debt-paying capacity.1/

1/ Final settlement amounting to .083 cents per bushel for wheat was announced on March 31, 1951, and consequently is not included in the returns of the 124 farms. The amounts of equalization payments on sales of coarse grains from 1946 crop were announced in 1947.

These additional payments averaged $230 for the 124 farms. They varied from $170 for general livestock farms to about $500 for grain farms; from $60 on quarter section farms to about $500 on farms of five and more quarters.

Farm Expenses

Farm expenses may be studied under three headings: (1) current operating expenses, (2)maintenance of farm capital and (3) farm family living expenses. The first two include such items as the tractor, fuel, labour and taxes and depreciation on farm capital. Concerning the third class of expenses listed, it is realistic to treat the farm family's living expenses with the farm operation expense. The operator - on most farms the chief labourer as well as the manager and only shareholder - rarely is paid a wage or salary, as in most other businesses. In commercialized agriculture, which is characteristic of the area under review, the greater part of the farm family living comes out of money income, although a certain part of the living is derived from products raised and consumed on the farm. It is usual to provide for the family living like the farm expenses, out of the current receipts. To be able to do this is one's first objective in farming. Instead of estimating an operator's wage to charge against the farm business, in this study the family's cash living expenses is considered an equivalent.1/

Current Operating Expenses.- Including an allowance for family labour used on the farm, exclusive of operator, and board of farm labour, all current operating expenses averaged, for 124 farms in the Red Deer-Wetaskiwin area in 1946-47, a little over $2,000 (Table 4). The two largest items of current expenses were: tractor operating costs and hired labour. Taxes on real estate averaged $170 per farm, and the amount spent on custom work was about the same. The latter was made up mainly of threshing, although this item would have averaged much higher as a cash cost for farms actually having hired threshing done, as a few farmers co-operating in the study had their own threshing machines and did their own as well as their neighbours' threshing. In their statements, receipts from custom work far offset their expenses for this item. There were a few harvester-combines in the area and chiefly on the grain farms.

1/ The use of family cash living expense for the operator's wage is not satisfactory in an individual farm statement. Living costs may be abnormally high in a year, say,when sickness strikes, and a financial setback which may be thus incurred has no relation to the operation of the farm business. Used in group averages, however, the living cost probably does reflect an acceptable wage to operator as satisfactory as any method. (See discussion of surplus p. 10.)

Table 4.- Distribution of Farm Expenditures by Types of Farms, Red Deer-Wetaskiwin Area, Crop Year 1946-47

	Farm types			
	General livestock	Whole milk	Mixed grain-livestock	All farms
	- dollars -			
Taxes	155	165	244	170
Tractor	250	325	404	288
Paid labour	183	286	272	216
Family labour (excluding operator)	319	190	181	273
Other operating expenses a/	936	1,301	1,262	1,058
Total current operating b/	1,843	2,267	2,363	2,005
Capital expenditures	1,182	1,585	1,086	1,246
Farm family cash living costs	1,355	1,657	1,296	1,404
Number of farms	81	24	19	124

a/ Seed, feed, truck and car operation, machinery repairs, custom work (threshing).

b/ Does not include depreciation; depreciation allowed for in arriving at net increase in inventory.

Capital Costs.- The upkeep of farm capital requires considerable outlay. Farm buildings deteriorate, machinery wears out, breeding stock grows old. All must be renovated or replaced periodically if the farm business is to continue to be a going concern. For farm machinery alone, investment exceeded $3,300. The importance of depreciation may be illustrated by the following example. There was an average of one tractor per farm visited and the average tractor value was then estimated at $822. The tractor had, on the average, eight more years of useful life, thus the annual depreciation cost on this one machine amounted to about $100. During the year of the study outlays were incurred to add to the fixed capital investment in land improvements, buildings and machinery. These outlays averaged more than $1,200 per farm and were more than sufficient to compensate for the decrease in fixed capital investment resulting from depreciation. Supplies on hand had also increased. As a result the average farm could record an increase of $685 in its inventory for the year 1946-47.

Farm Family's Cash Living Expenses and Perquisites.- 1/ The cash living expenses averaged $1,440 per farm family and $334 per person in the

1/ MacNaughton, M.A. and Andal, M.E., Changes in Farm Family Living in Three Areas of the Prairie Provinces from 1942-43 to 1947, Canada Department of Agriculture, Economics Division, and Department of National Health and Welfare in co-operation with the Universities of Alberta and Saskatchewan. Technical Bulletin 69, 1950.

family. The largest item was for food purchased, followed by the costs associated with the operation of a farm household (exclusive of rent), education and recreation, clothing, medical, personal and life insurance. An estimated value of $680 in farm produced food, allowance for rent of house and farm grown fuel, added to the $1,404 for cash living expenses, gave a total living cost of $2,084 per farm family. This indicates a fairly high plane of living and is a factor contributing to the demand for land in the area. Both the cash living expenses of the farm family and the estimated value of perquisites or non-cash items averaged higher on the livestock than on the grain and mixed grain-livestock farms.

In the farm operating statements the estimated value of farm perquisites was omitted as an expense and in an offsetting entry as farm receipts.

Farm Expenses Summarized.- In summary, there are three main classes of expenses incurred in operating a farm: current, maintenance of capital and family living expenses. In total, these averaged $4,655 per farm for the 124 farms. On the mixed grain-livestock farms current operating expenses were somewhat higher than on livestock farms, but in total expenses there was little difference between the two major types.

This summary of expenses included an allowance for wages of unpaid family help and cash living expenses of the farm family. Allowance for wages of unpaid family help was included as an expense in determining the net farm income, since the main concern was with performance of the farm first, and savings secondly. It was not included as an expense in determining the surplus available for savings or paying on indebtedness. But, farm family cash living costs were included as an expense in determining the surplus available for savings and payment on debt.

Net Farm Income

Gross cash receipts averaged $4,507 per farm and the net increases in inventory averaged $685 which gave a total gross farm income of $5,192 per farm (Table 5). Current cash operating expenses, including an allowance for unpaid labour, averaged $2,005. Capital expenditures, which covered more than the maintenance of farm capital, (reflected in an increase in inventory) averaged $1,246 per farm. Total current operating and capital expenditures thus amounted to $3,251. Deducting the total current operating and capital expenditures from the gross farm income ($5,192 - $3,251) gave a net farm income which averaged $1,941 per farm. Net farm income is the return to the operator for his labour and management, and to capital, after allowing for upkeep of that capital and a wage to any other unpaid family labour.

Table 5.- Average Net Farm Income and Surplus by Types of Farms, Red Deer-Wetaskiwin Area, Crop Year 1946-47

	Farm types			
	General livestock	Whole milk	Mixed grain-livestock	All farms
	- dollars -			
Farm receipts, a/ including net increase in inventory	5,000	5,991	5,005	5,192
Farm expenses, current and capital	3,025	3,852	3,449	3,251
Net farm income	1,975	2,139	1,556	1,941
Unpaid labour	319	190	180	273
Family net farm income	2,294	2,329	1,736	2,214
Non-farm income	223	385	217	254
Family income	2,517	2,714	1,953	2,468
Family cash living costs	1,355	1,657	1,296	1,404
Surplus	1,162	1,057	657	1,064

a/ Includes all Wheat Board grain payments on 1946 crop to December 31, 1950 and equalization payments on sales of coarse grains.

Surplus

An allowance of $273 for wages and board of unpaid labour was included as an expense in calculating the net farm income, $1,941. In calculating the surplus available for family savings or payment on debt, a more realistic situation would be not to include this as an outlay. The net income to the farm family for the labour and capital invested was then $2,214 (1,941 + 273). The family also received income from sources other than the farm itself and, in particular, from family allowances and off-farm investments. In all, non-farm income averaged $254. Thus the total family income amounted to($2,214 + 254) or $2,468 per farm. There was, however, a cash cost which must be deducted to arrive at any surplus made available for savings and to pay on indebtedness. This was the farm family's cash living expenses. The farm family's cash living expense averaged $1,404 for all farms visited. The difference between the net family income and the farm family cash living expenses gave a surplus, which averaged $1,064 per farm. This might be considered the maximum available to meet an annual debt payment for the operator if he were in the 'average' situation of the farms studied.

FINANCING THE FARM BUSINESS

An annual payment of $1,064 would pay off a debt of $13,260 in 20 years at five per cent interest. The average value placed on real estate for the 124 farms included in the study was $12,022 per farm or $34 per acre. However, real estate is only one item of capital in the operation of a farm (see Table 2). Equipment averaged $3,326 and livestock $2,560 per farm. Miscellaneous items of capital investment, including feed, seed, and other supplies on hand averaged $680 per farm, making the total capital investment per farm $18,588. This is an average capital figure for all farms - all sizes and all types.

If what can be paid off in 20 years, with such a farm business, is considered the maximum debt which the farm operator can reasonably assume and which his creditors are willing to comply with, namely $13,260, then the operator will need to have ($18,588 - $13,260) = $5,328 or roughly $5,500 of his own capital to invest in the business. This is nearly the value of livestock and of machinery, on the average, carried on the farms in the Red Deer-Wetaskiwin area in the year of the study.

The average value placed on the real estate was $34 an acre but it was also noted that during 1947 land of the same quality as the land on the farms visited was selling at an average of $42 an acre.1/ If the $42 instead of the $34 figure is used in calculating the average value of the farm capital for the 124 farms visited in 1947, the value of the real estate will have to be increased by $2,824 and the average value of all farm capital will then amount to $21,412 per farm.

It is thus reasonable to assume that the purchaser will have to have more equity in the farm business than has been implied in the foregoing sections of this study. Clear ownership of all moveable assets - equipment and machinery, livestock and working capital (largely tied up in feeds and supplies with the 124 farms) or $6,566 - would seem to be the lowest acceptable equity in the total investment to give one some assurance of being able to make headway in paying off the purchase price of the land in a reagonable time at $42 an acre. It may be noted that the value of machinery, livestock, and other non-real estate farm property amounted to about one-third of the 1947 price of the real estate plus moveable farm property or total capital investment.

Size of Farm in Relation to Debt-Paying Capacity

The foregoing is premised on a unit of 353 acres with the stock and equipment and the type of organization and management which prevailed on the 124 farms visited in 1947. Judging from the experience of 1946-47, one could not expect to make the headway suggested towards acquiring full ownership with any smaller size unit (in terms of land, stock). This is revealed when the 124 farms are arranged into groups according to sizes

1/ Askin, T.H. op. cit.

and the average net incomes calculated (Table 6). On a quarter section farm with 116 acres in cropland (40 such farms in the group), the surplus (including outside income of $243) averaged $159. An annual payment of $159 would pay off a debt of $1,981 in 20 years at five per cent (Table 7A). Total capital investment in quarter section farms in the survey averaged $11,014, comprised of $6,776 in real estate (study valuation) and the balance of $4,238 in stock, machinery and other moveable farm property.

Table 6.- Net Farm Income and Surplus by Size of Farms, Red Deer-Wetaskiwin Area, Crop Year 1946-47

	Size of farm in quarter sections			
	One	Two	Three and four	Five and over
Number of farms	40	46	28	10
Acres of cropland	116	198	304	546
	- dollars -			
Net farm income a/	910	1,539	3,172	4,321
Unpaid family labour plus non-farm income	415	366	801	1,275
Total net	1,325	1,905	3,973	5,596
Family cash living	1,166	1,285	1,756	1,925
Surplus, 1947	159	620	2,217	3,671

a/ Includes all Wheat Board grain payments on 1946 crop to December 31, 1950.

It may be observed that with the price of land, machinery and livestock required in 1947, in relation to returns, the minimum size of a farm unit would need to be larger than a quarter section to permit making headway on paying off indebtedness; that is, providing the farm family's living costs were to be about average of these quarter section farms; namely, $1,166 per annum.

Effect of More Intensity in Livestock Production

It may be noted (Table 5) that the surplus obtained on the general livestock type of farms ($1,162) was nearly twice as large as on the mixed grain-livestock types, ($657). The livestock type of farms averaged a little more than one half section with 200 acres under cultivation, whereas the mixed grain-livestock farms averaged nearly three-quarters with 320 acres under cultivation. There were less than half the number of livestock units on the grain-livestock farms compared to the general livestock.

Table 7.- Surpluses in Terms of Debt Payments, Red Deer-Wetaskiwin Area, Crop Year 1946-47

A. By Size of Farm 1946-47	One quarter	Two quarters	Three & four quarters	Five & more quarters
	- dollars -			
Surplus	159	620	2,217	3,671
Amortized in 20 yrs. at 5% will pay off debt -	1,981	8,935	26,381	45,747
Farm Capital 1946-47				
Real estate	6,776	11,170	15,159	28,139
Livestock, machinery, etc.	4,238	5,779	8,468	14,173
Total capital	11,014	16,949	23,627	42,312
Number of farms	40	46	28	10
Acres cultivated	116	198	304	546

B. By Type of Farm	General livestock	Whole milk	Mixed grain - livestock	All farms
	- dollars -			
Surplus	1,162	1,057	657	1,064
Amortized in 20 yrs. at 5% will pay off debt -	14,480	13,172	8,187	13,260
Farm Capital 1946-47				
Real estate	11,260	11,482	15,950	12,022
Livestock, machinery, etc.	6,621	6,504	6,411	6,566
Total capital	17,881	17,986	22,361	18,588
Number of farms	81	24	19	124
Acres cultivated	200	228	320	224

With like acreage, then, one may conclude that greater returns and hence greater debt retiring capacity, can be expected from a farm business in central Alberta in which livestock is emphasized, contrasted to one with less livestock and greater dependence on direct sale of grain. Even so,

the half section unit with approximately 200 acres under cultivation appears to be a minimum size to give the ordinary farm family adequate revenue to live as well as their neighbors and make headway toward obtaining full ownership of the farm business.

Experience on Twenty-One Other Farms from 1947 to 1950

The observations made respecting farm income and debt retiring capacity pertained to the 124 farms for the year 1946-47. Further observations relating to farm income and debt retiring capacity are made possible in a study of continuous records on 21 other farms in West Central Alberta over a four-year period, 1947 to 1950 inclusive.1/ While the farms were of the same types, mixed grain-livestock, with considerable emphasis on livestock, they were on the whole a little smaller than the 124 farms. In 1950 the 21 farms averaged 265 acres with 203 under cultivation and 18.3 animal units.

Net Farm Income and Surplus on the Twenty-One Farms.- The net farm family incomes per farm for these farms from 1947 through 1950 including non-farm income averaged: for 1947, $2,906; for 1948, $2,645; for 1949, $1,301; and for 1950, $2,865. Suppose it is assumed living costs were on about the same plane as those of the 124 farm families studied earlier; namely, $1,404 for 1946-47. Allowing for the rising cost of farm living 2/ in these subsequent years, the assumption would mean that farm cash living costs would have averaged approximately $1,463 for 1947; $1,722 for 1948; $1,832 for 1949; and $1,879 for 1950. Thus surpluses available for meeting indebtedness would have averaged (2,906 - 1,463) or $1,443 for 1947; (2,645 - 1,722) or $923 for 1948; (1,301 - 1,832) or $-531 for 1949; and (2,865 - 1,879) or $986 for 1950.

On the 21 farms in 1949 the crop yield was about one half that harvested in each of the other three years; namely 1947, 1948 and 1950 of the four-year period reviewed and of the 124 farms in 1946. One very light crop in five would not seem to be unreasonable to expect in an area even as 'sure crop' as west central Alberta. While drought may be less frequent, there are other crop hazards with which to contend. Two of the most frequently occurring are hail and early frost.

Debt Retiring Capacity on the Twenty-One Farms.- Judging by the continuous performance of these 21 farms, with careful management of finances an annual payment of approximately $1,000 could have been taken care of in 1947, in 1948 and 1950, but not in 1949. In fact, if the farm family had spent as much on living in 1949 as was the average of the 124 farms in 1946-47, there would have been a deficit in the year's operation, even ignoring the annual payment due on farm indebtedness. Very light crops were

1/ Settlement and Financial Progress of Farmers with V.L.A. Assistance in West Central Alberta, 1947 to 1950, by Federal Economics Division of Alberta in co-operation with V.L.A. Administration for the Province of Alberta - report in preparation. Accounting period for 21 farms was calendar year - accounting period for 124 farms was June 1 to May 31, and hence pertained to 1946 crop.

2/ Rising cost estimated by direct application of "Cost of Living Indices" - The Economic Annalist, Canada Department of Agriculture, December 1950. p. 122. Information on family living costs for 21 farms not obtained in the study.

harvested in west central Alberta in 1949, chiefly on account of early summer drought. In many townships P.F.A.A. payments were received for the first time since that assistance scheme was established.1/

Provision for 'Off-Crop' Year

While in general, supporting the observations made earlier respecting the debt-paying capacity of farms in west Central Alberta, the study of the 21 farms suggests the possibilities of an 'off' year. It would not appear to be too conservative to allow for one such year in five. This would suggest spreading the payments over a 25-year period rather than 20 years.2/ An average annual payment of approximately $850 would pay off a $12,000 debt in 25 years at five per cent interest. It would appear that if the surplus obtained by the average of the 124 farms in 1946-47 could be expected in four out of five years, a no-surplus year could be allowed for in the fifth year, assuring fulfilment of a contract extending over 25 years to pay off the farm indebtedness of around $12,000 (Table 7). With a lower interest rate, of course, the potential surplus would warrant a contract for a shorter span of years.

Increased Inventory Part of Surplus

Throughout this report 'surplus'' has been considered as available for paying off indebtedness; or for savings, if there is no debt. This is not altogether realistic. Included in this surplus is net increase in inventory, and the latter may be in many forms, such as increase in feeds and supplies, new machinery, or more acres improved. If the whole 'surplus' were to be taken out of the business each year to retire debt, then, while depreciation would be provided for, no net increase in inventory, appreciation of farm capital or expansion of the farm business would take place. So in budgeting for such surplus to meet payments on farm indebtedness, actually only that part of the surplus which it would seem advisable to turn into cash would be allocated for payment of debt. This probably means, in actual practice, that comparatively lower payments on indebtedness would be made in the early years to permit expansion of the business, and payments increased later from the higher income made possible by the expansion.

1/ While a few townships in this general west central Alberta area had received P.F.A.A. assistance for two years, more had received the assistance one year only, and some had never received it by 1950. Farther east and south, many townships had received assistance ten and 11 years out of 12 in which the Act has been operative.

2/ Canadian Farm Loan Board.- First mortgages may be obtained up to 25 years on not more than 50 per cent of the appraised value of the land. The maximum loan to any one borrower is $10,000 on first mortgages at an interest rate of five per cent. Loans for terms of more than five years are payable in equal annual or semi-annual instalments of combined principal and interest on an amortized plan of repayments.
Veterans' Land Act.- Under the terms of the Act eligible veterans may borrow a maximum of $4,800 for land, buildings and permanent improvements. A down payment of ten per cent of the purchase price is required, with the unpaid balance amortized for a period of ten to 25 years at an interest charge of 3½ per cent. Provision is made whereby approximately 24 per cent of the debt is absorbed by the government if the veteran complies with the terms of settlement for the first ten years of the contract.

For simplicity in determining and showing potential debt-paying capacity the farm business is treated from one point of time, although one must recognize farming is a dynamic, not a static situation.

Minimum Capital Requirements

The inference which has been made from the study of the 124 farms in the Red Deer-Wetaskiwin area is that on a half section unit with about 200 acres in cultivation, stressing livestock, one could make headway in acquiring full ownership of the business within a 20 to 25 year period, providing his equity at the start ranged from one-quarter to one-third the full value of the real estate, livestock and implements which comprised the business. The inference is based on the 1946-47 farm income and values of real estate and other needed items of farm capital at prices which prevailed in 1946 and 1947, in relation to the costs of farming. It should be repeated too, that the 1946 crop yield on the whole in the Red Deer-Wetaskiwin area was about equal to the long time yield for that area. Crop yield, even on a livestock farm in west central Alberta, is one of the main determinants of income.

Net farm incomes earned on 21 other farms in the same general area for the subsequent years up to and including 1950 would support the above inference, but would also suggest that provision in the budgeting should be made for one 'off' year in five.

More specifically, the average total capital for the minimum sized unit suggested amounted to about $18,000, of which one-third or $6,000 were invested in livestock and machinery; the other two-thirds, or $12,000 were invested in the land and improvements. To assure making headway toward full ownership of the farm business and at the same time to enjoy a level of living for himself and family comparable to the average of the area, the farmer should have an equity of about $6,000 in the business, which would mean almost full ownership of livestock, machinery and other working capital, and thus be in debt only for the real estate.

The foregoing would suggest that in the Red Deer-Wetaskiwin area, if a farmer had full ownership of adequate machinery to farm a half-section, and livestock, in all, of moveable farm capital to the value of one-third of total farm capital or about one half that of the real estate, he would be justified in going into debt for the full purchase price of the farm itself, at the prices which prevailed in 1947. Based on the potential of such a farm business with average management and an honest attitude, the chances that he would find willing sellers are good. For simplicity in examining the adequacy of the potential payment capacity, it was assumed that the prospective farm owner would be in debt for the whole purchase price of the real estate. Actually this would be the equivalent of that debt, for it is more than likely the seller would want a down payment. In the situation related, the purchaser could make a down payment of $2,500 to $3,000 through a loan (secured by Chattel Mortgage) on his machinery and livestock, which as noted, is approximately 50 per cent of the appraised value of such moveable farm capital.

Cash Payment and Other Terms

Apart from the direct accomodation, a substantial down payment on the sale of the farm property assures the vendor (1) greater effort on the part of the farm purchaser to carry out the terms of the contract since his

equity is determined by the amounts of such payments, and (2) if the farm purchaser fails to carry out his contract, in repossessing the farm the vendor will be able to recover his investment more readily, plus the accrued interest and costs of repossession proceedings.

It is the cash down payment and other terms which the buyer is able to offer as well as the price that determines his competitive position in the demand for the land, although this is not to say the character of the buyer, his farm experience and demonstrated capacity are not given due consideration. Of the 1946 and 1947 sales of farm land referred to earlier, approximately 60 per cent were for cash. Of the other 40 per cent, - time sales - the cash down payment averaged 45 per cent. Further terms respecting the time sales called for annual payments on the average of, roughly, $1,000 unpaid balance including interest at five per cent. Such an annual payment could be handled by a like performance of the average of the 124 farm businesses in 1946-47, but would be beyond the capacity exhibited by the grain-livestock farm type of farms alone in 1946-47 to assure continuous satisfactory operation and a level of living equivalent to that enjoyed on the average by the farmers of that area.

Many farmers who bought land in west central Alberta in recent years have been able to make larger down payments and assume a shorter term contract for paying off the balance than the minimum requirement outlined herein, based on an adequate size of farm business, type of organization and level of returns as occurred in 1946-47. They have thus been able to establish themselves with a greater margin of security of tenure than had they less capital of their own. About 40 per cent of land purchases were made by nearby farmers, who bought to enlarge their holdings.

Many farm seekers, however, have less funds at their disposal with which to acquire a farm business than those to which reference was made in the foregoing. Their problem is one of persuading the vendor to accept a relatively low down payment and longer term of payments. For the purchasers this often means agreeing to pay a higher price than if they had more funds at their disposal in the bargaining process.

Looking Ahead

In obligating oneself for the future in the purchase of a farm, of prime importance is as reasonable as possible an assurance that both the physical set-up of the farm and the impact of economic forces will permit him to carry out his commitments.

In general, with conditions such as prevailed in 1946-47, a half section farm with nearly 200 acres in cultivation and stressing a livestock type of farming, was suggested as a minimum to assure satisfactory tenure, satisfactory level of living and a reasonable assurance of ultimately acquiring full ownership of the farm business. Such was conditioned, too, on the purchaser's equity at the start, amounting to nearly one-third of the total capital invested in the business or approximately the full value of the stock, machinery and other moveable assets required in the operation of the farm. Specifically, on the 1946-47 cost-price basis the surplus needed

above farm operation, maintenance of capital, and cash living costs of the farm family was approximately $1,000. What is his assurance that in the years to come he will be able to earn this much or more?

Physical Factors

Considering the physical factors first, - it was noted the crop yield in 1946-47 was about equivalent to the long time average of the area. Crop yield is one of the most important determinants of income. It is reasonable to assume that in future years one may expect to obtain at least the same yield on an average and there should be some opportunity of increasing this. It is true that the cultivated land is becoming further removed from its virgin fertility and from that angle less productivity can be expected with the same moisture. At the same time, it has been demonstrated that such expected productivity is offset by hazards such as frost or lodging, so often associated with rank growth on new land. This is particularly true on the black soils of west central Alberta. With the gray soils on the new land no such rank growth can be expected, but on the other hand the opportunities of enhancing the native fertility by growing legumes and using fertilizers are so great 1/ that it is common experience for the old land to be made to produce more than the new. It may be observed, though, that as land becomes older it is more costly to farm. It requires more inputs of labour and inputs of such aids as weed killers, or fertilizers, but the chances of offsetting these with increased outputs or production are becoming more and more evident.

Within the usual half section in west central Alberta, too, having only 200 acres under cultivation, there is more land to be brought into cultivation. If suitable for improvement more revenue can be obtained from cultivated land than land in its native state. This is just as pronounced in the livestock type of farming as in grain farming in west central Alberta, for in the usual situation, while the crop production may be equivalent, the livestock outlet gives fuller utilization of the labour, capital and management of the farm business. Perhaps it would not be desirable or feasible to break out the land to the full maximum of 320 acres, since there may be rough, hilly, gullied parts that are better left in their native state, - not to mention an established or potential wood lot; but possibly up to 50 per cent of the remaining undisturbed sod can be cultivated.

Again note, the farm setup on which the capacity of the farm for meeting certain requirements in giving its operator reasonable security of tenure, of satisfactory living and of increasing financial equity was premised on the average of the general livestock type which prevailed in 1946-47. It is reasonable to expect that a better adjustment in such a type, giving a more intensive and profitable use of resources than the present average may be brought about with increased experience.

Economic Considerations

The impact of economic forces is reflected by and large in the relation of prices received for farm products to costs of farming - the relation of prices of output to costs of inputs. Based on pre-war price-cost relationships for the year 1946-47 farm prices of

1/ Newton, Ward and Bentley, Wooded Soils and Their Management. Bulletin No. 21, University of Alberta.

agricultural products were relatively higher than costs of commodities and services used by farmers in their production.1/ Thus price relationship of farm output to input in 1946-47 was conducive to relatively high net farm income and surplus compared to prewar years. For Alberta as a whole, net farm income in 1946 and 1947 was more than twice that of the immediate prewar years.2/ While there was a greater output in terms of physical units of grain, or pounds of meat, during the late war and postwar years, the price relationship of farm output to input accounted for a considerable part of the higher net farm income. This must be recognized in appraising the validity of the $1,000 surplus on an average of the 124 farms in the Red Deer-Wetaskiwin area for the year 1946-47, as an indication of what the performance of these farm businesses and like ones can be in future years.

There may come a time when the relationship of prices of farm output to costs will not be as favourable for the farmer as in 1946-47 and the years immediately before and after. Therefore, in appraising the possibility of one buying a farm business in west central Alberta with two-thirds of the capital cost to be paid off in instalments over a 20 to 25 year period, the capacity of the farm and its organization to give the adequate surplus under less favourable price-cost relationships should be given careful consideration. As noted, the increased net farm income in 1946-47 compared to prewar years was due in part to increased volume of production. How this volume may be further increased was indicated in the discussion of physical factors conditioning output. Bringing more land under cultivation, adjustment in type toward further intensification in use of land and other resources, and improved cultural practices to bring about higher yields were mentioned. Closely associated with these and determining largely their effectiveness in increasing net income is the efficiency in the application of the inputs. These are further economic considerations.

Inputs of labour, power and equipment are of major importance on all farms. These are the largest items of farm operating cost. They vary widely between farms, and are somewhat interdependent. While labour 3/ ordinarily is associated only with current operating costs, in the case of power and equipment the costs are both current operating and on capital outlay. These costs respond to well-planned management. The question is always before the management whether to invest in a new power unit, tillage and other classes of machines which will give more efficient operation than with his present equipment, or to carry on with present equipment even if such means continuing high labour costs. For the 124 farms in 1946-47 farm labour with allowance for board (excluding operator, but including other unpaid family help) averaged about $570; operating costs of tractor alone, more than $400; while capital outlay on new machinery during the year averaged over $500. Possibly an additional $500 outlay in machinery would have brought

1/ With 1935-39 = 100, April 1947: for all Canada farm prices = 190.5; Commodities and Services used by farmers 156.8. The Economic Annalist, Canada Department of Agriculture, November 1947.

2/ Dominion Bureau of Statistics Reference Paper No. 25, Part II.

3/ Expenses incurred in remodelling hired man's living quarters to attract and hold better labour could be considered capital outlay cost on farm labour.

about more efficiency in operations with consequent higher net returns. Often the farm with greatest inputs or highest absolute costs gives the highest net returns because the added expenditures bring more than an equivalent increase in income. A common situation in point on many of the 124 farms studied was whether or not to buy combine-harvester equipment. In west central Alberta such form of harvesting requires two major machines - a swather and a harvester combine with pick-up attachment, - capital investment of $4,000 or more. Depreciation, interest, and operating costs would amount to approximately $400 1/ per season. (He would be advised also to keep his present binder in running shape because of the probable occurrence of unfavourable weather for combine harvesting). Even with this apparent relative large investment to be reflected in higher overhead costs, the net income may be greater than without the use of this equipment. The problem is one of determining the amount to be saved in the larger labour costs, binding and threshing, to counterbalance the continuing capital and current operating costs of the combine harvesting machinery. The question is particularly pertinent and acute to the operator of the half section farm with 200 acres broken - the minimum suggested for the operator to live as well as his neighbours and make headway toward ownership of the farm business.

Even with considerable intensity in livestock production, which in effect gives one a larger size business on a smaller acreage of land compared with grain production, the half section farm is not large enough to warrant going far toward equipping the farm with a full complement of modern, streamlined machinery. There is no question about cutting down the costs of labour, and lightening the labour load of the operator himself by the use of the modern harvester-combine and associated grain harvesting equipment, power hay baler or forage cutter and associated equipment, milking machine; but, carried far, such investment may add to the farm expenses in higher carrying costs much more than is offset by saving of labour with less modern equipment in current operations. The successful farmer will carefully consider the probable increase in income every time he contemplates investing in more modern equipment and adapting different farm practices.

The foregoing observations pertain to the manipulation or management of specific costs within the framework of the general costs or inputs in relation to farm income, and over which the individual operator has some control. It is in the exercise of this control, as well as in careful management of other items of costs along with his productive effort of obtaining as much as possible in gross returns, that the farmer can help to acquire the highest surplus attainable; under these conditions of management the $1,000 annual surplus, in four years out of five, does not seem to be unreasonable, even with a somewhat less favourable cost-price relationship than existed in 1946-47 for the average farm set-up in the Red Deer-Wetaskiwin area. With this attainment the prices being paid for land in west central Alberta would appear to be in line with its capacity to produce.

Dollar Stability

In the foregoing, under economic considerations we have discussed the impact of cost-price income relationships in obtaining

1/ Scott, H.K., Farm Power and Machinery Costs in Alberta 1950 - processed bulletin, Canada Department of Agriculture. 1952.

farm surplus and paying off farm indebtedness. Changing relationships in prices of outputs to costs of inputs from year to year, and for longer periods, were noted. While these changing relationships were outside the individual farmer's control, it was pointed out that he could make certain adjustments in his farm program to withstand or benefit by such impacts, in obtaining surplus to meet farm indebtedness. There is, however, possibly a wider and farther reaching economic phenomenon to be given consideration in going into debt to purchase a farm, and that is a major change in the value of what a dollar will command in exchange. This pertains to changing relationships between debtor and creditor positions.

Those who have been paying for farms during the past 25 years will be fully conscious of the changing of value of money. In the thirties, dollars were dear compared to an earlier period. Indebtedness contracted earlier was far more difficult to pay off in the thirties - the farmer had to produce much more for sale to earn the same surplus in dollars as he did in the twenties. Then, during the forties, dollars were cheap compared to the thirties, and indebtedness contracted during the previous decade was far easier to pay off than when contracted. Similarly, $12,000 of indebtedness contracted to-day has a different relative value than $12,000 of indebtedness contracted a quarter of a century ago.

Relative to his situation as a debtor, it is a more favourable time for one to buy a farm when dollars are dear and pay off when cheap, than to buy when dollars are cheap and pay off the debt when dollars are dear, as illustrated for both situations in the lifetime of retiring farmers of today (thirties and forties). However, the comparatively short span of one farmer's lifetime does not usually permit him to wait for the most opportune time in such cyclical movements even though he could be sure of their timing.

If one has the interest, experience, health, ability, fortitude; and ownership of the livestock, equipment and other necessary liquid capital to the value of, roughly, one half the going value of the farm real estate of minimum acreage to assure a good living, - in west central Alberta any time is a satisfactory time to purchase. Those who have purchased improved farms in the late forties, in this general area of west central Alberta of average or better quality of land for the region at $40 or thereabouts an acre, as noted, have a reasonable chance of making a good living, and within the next quarter of a century enjoying full ownership.

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